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- **Knowing When to Turn a Day Trade into a Swing: Overnight Gaps and Chart Patterns**

● Main Points:

- Sometimes you may enter a trade and then wonder when to take profits/losses...eg should I turn it into a swing trade?
- The answer depends on the price momentum of the stock and your entry point.
- Never take home a losing position saying "oh well it's down for the day so I'll make it into a swing trade". That's how traders go broke.
- If, however, you are buying an end-of-day selloff bottom in anticipation of an upside gap the next day, that's another story. Some stocks that sell off more than 8% or so on no news may well rebound a couple of %age points the next day, good for an open bounce scalp.
- The other time would be when the stock closes out strong, at the high of the day, and you expect an upside gap on the next day. Again, it's a matter of extremes, if the stock has skyrocketed you should sell half your position to book the profit, holding the balance in case there's an upside gap. If it gaps down, wait, and if it keeps selling, stop out with a partial profit still in hand.
- When to turn what was a day trade into a swing trade? When you think the buying momentum will continue, of course. It's a matter of degree, and the trade sizes you are playing. I'm a big fan of varying your share position size, eg start with 300 shares, add 100 if it continues, sell out 200 at what you think is a top, hold the balance etc.
- Let's look at chart pattern examples below:

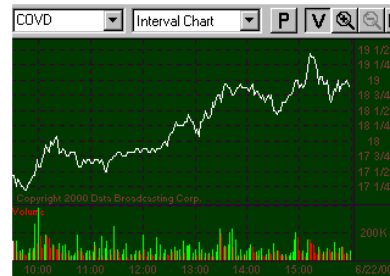
Remember to Swing Trade with 10-day and Intraday Charts

Swing Trading Strong Bounces: COVD Example

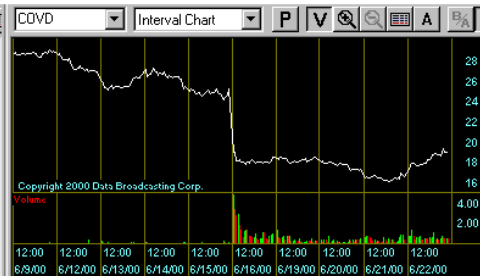
Here's COVD, a stock that recently sold off down to 16 1/2. It has broken through resistance at 18, and is trading over 19 at the close of the day.

A day trade entered during any of the previous 5 days on a 'dead cat bounce' buy should be sold 1/2 here at the end of the day to lock in profit, with the other 1/2 held for a sell right under 20.

1-Day COVD Chart:



10-Day COVD Chart:

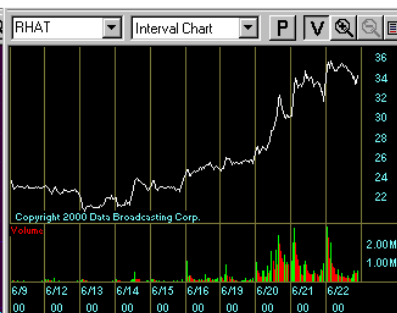


Even if the stock had been entered as a day trade early in the day, you would still hold 1/2 the position into the close for a swing trade, with a trailing stop at 18 1/2. If the stock gaps over 20 the next day, you would add to the position. If it gaps down a bit, use a trailing stop loss at no lower than 18.

1-Day RHAT Chart:



10-Day RHAT Chart:



Buying Pullbacks in Uptrends: RHAT Example

You can see that RHAT has been climbing for 5 days in a row. Do you sell or buy? I would buy if the stock climbed over 36 1/4 on volume; if I was already in I would have sold the 10:00am top this am at 35 3/4 and waited for a lower point to re-enter.

If you are entering a new position, you would place a stop at 33 here. (33 1/2 if you wish).

What does the volume tell you? Buyers in the am, low volume the rest of the day.

1-Day RNWK Chart:

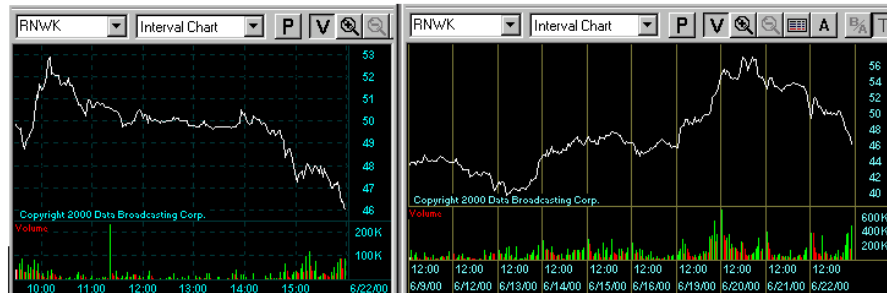
10-Day RNWK Chart:

Risky Bottomfishing #1: RNWK Example

It's important to know the trading range and trend for your swing trades. Here is RNWK, it broke over 44 resistance a few days ago and has dropped to near that level today.

I entered a small-share long position on the close at 46 1/16th in RNWK, with a wide stop at 44 1/2.

Why? The stock had plenty of buyers for at least 1/2 of the previous 10 days (closed higher), no adverse news has come out, and the stock lost 12% for no 'good reason'...



Why is this a risky play? 10-day support is at 40, and it's at 30 for a month-long timeframe. I am risking an open gap to the downside, as low as 40, but more likely in the 42-44 range. I believe that it will retest 50 within a week, however, so I am willing to chance it. I still have a firm stop at 44 1/2, if it gaps lower than 45 on the open and continues to sell I'll exit the position, and not re-enter till it has climbed over 47 again. If I had been playing it earlier in the day, 50 was the support level and I would have exited once it lost 50, or entered a short position.

1-Day DCLK Chart:

10-Day DCLK Chart:

Risky Bottomfishing #2: DCLK Example

I bought DCLK on the close at 40 7/8. hmmm...why did i do that?

No buyers anywhere in sight for DCLK, is this a bad entry? Maybe, except I know that DCLK tends to gap up on the open after a selling day. Previous support is at 38, which is where my stop is at. Let's say it gaps open to 41 1/2, and starts to climb the next day. Where do I sell? Right under the previous days' major trendline, at 43. So, I'd sell at 42 7/8.



These are a risky type of swing trading, buying a down close at the end of the day. **Some guidelines:**

- If buying at the end of day low for a swing trade, make sure the stock **has sold off significantly**, eg over 8%. I like to buy especially if it's dropped over 15% for no 'good reason'...the price tends to correct back up within 1-2 days for at least a few percentage points.
- **Stops are still important.** Do not panic out, however, if the stock gaps down premarket. Remember buyers tend to be attracted by large gaps down. Only sell out if the stock heads lower 10-15 minutes after the open **after the open gap down.**
- **Take an open profit** if the stock gaps up on the open a decent amount, eg 4-5% above what it closed at. I tend to do well on overnight holds that gap up.
- Remember that gaps on the open of over 5% on volume above 20K attract traders...both on the upside and downside. **Be prepared to trade gaps**, they are among the most profitable of trading opportunities. Remember not to trade the first 10-15 minutes of the open, except to close out open gaps up.
- **Watch time and sales...** I remember seeing a lot of traders getting burned on shorting ISLD after a gap up, only to see it continue higher. Remember, open gaps up don't always sell off, and open gaps down do not always get buyers.... watch time and sales the first 15-20 minutes to get a clear picture of the market's direction. Cup and handle patterns are important to look for using your 3-minute bar or candlestick charts during the first 20 minutes of the market open.

- How to Clear Your Profits in Swing Trading: Taking Money off the Table at the best time

● Main Points:

- As in any type of trade, when you sell is much more important than when you buy. Let's look at how to know when "enough is enough" and you can exit your position with a solid profit.
- The challenge is to let your profit run, but not to wait so long that other sellers come in and the price drops to below where you would want to exit.
- Nobody can pick tops and bottoms exactly, the key is to manage your trades, stops, and exits carefully.
- In swing trading, I tend to look at Chart Patterns/TA, Percentages, and Exit Targets.
- Since you are risking more, in terms of a bigger stop, in your swing trades, you must develop the patience to let the trade work in your favor, and not sell to soon at the first sign of green.
- Map out your trade ahead of time and write down where your stop loss is and where you will look to take profit at.
- If the stock you've been holding for several days has a terrific breakout day and runs, go ahead and take the profit... don't give up a nice profit because you're only a day or two in a trade that you had expected to need to hold on to for longer. Take the money.
- Let's look at some specific strategies below:

Always Sell Right Under "Decade Resistance" and Buy Back if It Breaks Through

Always Sell Right Under "Decade Resistance" and Buy Back if It Breaks Through

This is an excellent guideline to follow for helping you exit your trades with the maximum profit possible. The only time you don't sell as it approaches whole decades is if it's running up through the price point on good volume.

Always always sell your stock as it approaches a "decade" number, such as 10 20 30 40 50 60. You can always buy it back 1/4 point above the decade number if it keeps going up, but you should Always take your profits right under the decade number.

Example: You bought RNWK at 42 for a swing trade on 4/24/00. You set your stop at the support level of 39 3/4 (right under a whole number).

Your profit target is high 40s. You get ready to sell at 47. The stock gets buyers, You fire off a sell order at 49 5/8, booking 9 5/8 points profit in 1-2 days.

Look at RIMM - same story, it approached but could not get buyers to bid over 50 for it. It fell back into a trading range here. The next time to buy would be off a dip to 36-38 or above a breakthrough at 44.



Take Profits if the Daily Percentage is Over 15% in Your Favor

Keep a portfolio tracker where you can see it at all times. (eg esignal or quotetracker.com etc).

The more a stock goes up, especially above 15% on the day, the more likely you are to get sellers in this region. Of course, you should use trailing stops, don't exit the position prematurely.... However I find that I'm antsy to hit the sell button if the stock is up over 15-18% on the day, that's a bit extended to the upside.

I always keep a portfolio list sorted by Percentage, with the green/up stocks at the top of the list. I'm looking at the deep reds (eg over 8% in the red) for possible bounces if the reason they sold wasn't earnings or other major "real reason" for selling. A selloff above 6-8% in an otherwise flat/up market on no news is always a good candidate to look for bounces.

In this example, we called VISX as a sell from a previous hold since it's up 18.6% on the day.

Symbol	Size	Pct
VISX	100	+18.6%
BRCD	100	+13.6%
ERTS	3.00K	+12.1%
MKTW	2.50K	+9.3%
SPYG	100	+10.3%
NEON	400	+9.4%
CNET	900	+7.9%
PSUN	5.00K	+5.4%
GENE	100	+4.5%
MMPT	1.00K	+3.3%
KR	100	+3.3%
RIMM	2.00K	+3.2%
BVSN	200	+3.3%
OMKT	300	+3.6%
ROST	100	+3.2%
CMGI	600	+2.5%
PMTG	300	+3.3%
INTU	100	+2.4%
CS	300	+2.7%
IMGX	100	+2.4%

Look at the Big Picture: 6-month, 10-day, Intraday Charts

As we mentioned in Module 1, you should use a "zoom" approach to TA for your stocks, eg start by looking at the 6-month or yearly chart for major trend, support and resistance.

In this VISX example, you can see we had a nice long consolidation period from 14-19, with a recent breakout. Resistance is at 19-20.

What's the 6-month chart also tell you? Look at the MA lines, we're finally above the 20MA, which is bullish here, and we have a green "volume spike", so we are going up on decent volume. That's a good sign.



Next, take a look at the 10-day chart. What's it telling you? No sellers anywhere.

The stock has been in a steady uptrend for the last 2 weeks, and finally on Friday we had a volume breakout above 20, a very bullish sign.

We exit the position right at 19 3/4, however, and Sit Out the tug of war between buyers and sellers as it tries to take out the resistance at 20. That's a low-percentage battle to be involved in, so you want to take your profit out beforehand. If it breaks through the decade resistance level and consolidates above it, then we can buy back in.



In our 2-minute intraday candle chart with MACD and stochastics, we see that the stock trended up nicely all day long. The stock consolidated right at 20, which we expected over a week ago.

So, we exit right under 20 to take a healthy profit and wait for another profitable trading opportunity in this stock.

The fact that the stochastics are in a wiggling downwards trend is bearish, plus the MACD looks to be weakening, so it's a triple confirmation of a time to exit the trade.

Use all 3 of these rules profitably in the market and you'll be ahead of the "herd" of paper/new traders out there.



Knowing when to take your profits is always a struggle - I've often left large amounts of money on the table as I sell with a nice profit, only to see the stock move much higher. I always say "Doh!" like Homer Simpson when that happens.

But, for every time I leave money on the table I sell at the top 2-3 times as often. So, I learn that nobody can pick tops and bottoms, you just need to have a solid, disciplined risk/money management strategy in place.

Your losses must be small, your wins must be moderate and consistent. Don't try for "home run" swing trades of many points, if you're up with decent profit, then sell and rotate your capital into the next, higher-potential trade that presents itself.

Module Four

Swing Trading Strategies

◀ PREVIOUS NEXT ▶

Back to
MODULE 4

- Making the transition from swing trading into day trading, and vice-versa

● Main Points:

- Decide whether your trade is a day or swing trade Before you get into it. You are not allowed to rationalize and let a losing daytrade become a "swing trade" and hope it goes up again someday.
- You may at some point in your trading life want to spend more time with one type of trading than another, or, do both types of trading.
- I recommend that you use a low-cost online broker (like datek.com or interactivebrokers.com etc) for swing trades and a DAT (direct-access trading) broker for daytrading. Have Two Separate Accounts, one for your daytrading, the other for your swing trades. That's what I do (cyber for daytrading, datek for swing trades).
- If you are unsuccessful in your current trading efforts, remember to 1) trade the market the way it's trading, eg don't go long in downtrends, or expect big runs in choppy trading times like summer 2) be flexible and try a different trading style, using papertrading and/or small 100-share trades to test out your approach.
- Be patient with yourself, making the transition from one trading style to another is time-consuming and takes hard work, patience, consistency and discipline on your part.
- People who have been unsuccessful at day trading can be highly successful swing traders, and vice versa... it depends on your personal trading style, equipment/tools, and other factors. That's why it's important to experiment with different trading styles until you find one that works for you - that's why I'm including this lesson, to help you with some ideas for trying out a different style.



Going from Day Trading to Swingtrading:

In changing (or adding) **swing trading** to your arsenal of trading styles, you take on added risk and potential added reward as well.

Your stops should be wider, and the size of your trades should be smaller (eg 100-300 shares).

Your timing does not have to be as precise, as you are shooting to enter towards the lower end of a trading range (or a breakout above resistance), and sell at the high end of a trading range.

Here are some of the things to do keep in mind to help you adopt swing trading as a personal trading style:

Trading Signals to Watch:	Equipment Needed:	Trade Sizes/Picks:	Personality:
- MA crossovers, eg 20MA, 50/100/200 MAs 10- and 30-day trading range support and resistance levels and trendlines - earnings release dates - news-related gaps, either direction (up/down) on the open - buying/selling pressure in the entire sector the stock belongs to over a 10- day period, eg \$GIN chart for internets, \$SOX for semi's etc. - Seasonal fluctuations, eg retailers, energy strong in the fall/winter season etc. - Candlestick reversals (1-day charts).	- A single PC monitor, slow 56K modem and online brokerage account is fine for swing trades. - You do not need to invest in the commission load of a daytrading broker and data feed if you're solely swing trading.	- Recommend that you trade a "basket" of 3 to 5 stocks simultaneously with small shares, eg 100 - 200 share trades for your swing trades. Remember that bad news can cut a stock in half, so you want to minimize your risk exposure for the multiple overnight holds you'll be trading. - Picks can be "dead cat bounces", eg buying ICGX DCLK or others that have sold off and consolidated for awhile at a key support level, or breakouts. Good companies who have had overreactions to news and whose price has attracted buyers would be good trades to enter (eg open gaps down, just like daytrades, but with a longer holding time horizon).	- Ahh, this is fun. The swing traders' personality needs to be a bit more relaxed than the daytraders, eg you can't panic if the stock loses 1/2 point. - Conservative, deliberate, patient, analytical personality types do well with swing trading. Those who are impatient will stop out of their swing trades prematurely. It takes patience to "let the winners run" and not take profits too early.



Swingtraders think:

Ok, I'm in now, I'll let the trade work itself out this week - let me study the chart pattern and see where it goes. This is an occasional trading style, may look at realtime quotes on occasion during the trading day..

Going from Swingtrading to Day Trading:

If you are like me and are impatient, waiting a few days or a week for a trade to pay off can seem like an eternity, and you'd rather play the market like a video game, taking fast profits based on a complex set of indicators that you depend on to help you navigate your trades.

Daytrading requires iron discipline and a more sophisticated set of trading tools and knowledge than swingtrading does. . Making the transition involves gradually increasing your trade size to where you can trade blocks of 500-1000 shares in short timeframes, almost exclusively under 20 minute round trip trades. It's like racing on a track, you need to know what you're doing.

Trading Signals to Watch:	Equipment Needed:	Trade Sizes/Picks:	Personality:
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- Gap fills on the open, eg bounces off of major gaps down or short open gaps up
- Stochastics and RSI, sector strength, \$TRINQ/\$TICK/COMPQ and nas futures/spoos.
- Breakout chart patterns on 1, 2, 3 5 and/or 15 minute charts.
- Momentum runs, eg IPOs and breakouts early in the day (9:40, sell at 10; 10:30, sell at 11, 3:40 eod short covers etc)...
- Minimum of two monitors is Required not optional for daytrading.
- Must have a 550+Mhz PC w/at least 256 megs ram.
- Minimum 128K ISP internet connection, eg ISDN/ADSL/cablemodem/T1/T3.
- Must have a pay data feed service (eg esignal or quote.com or RTIII)
- Must have Level 2 and time & sales access.
- Must have a DAT broker
- Note: if you do not have this equipment setup than please do not daytrade, it's financial suicide. Don't race against my Ferrari with your 73 Pinto. It doesn't work. Really. Don't throw your money at the market by not having the proper tools to do the job.
- You can still make handsome profits with 100-share trades on stocks w/3-5 intraday point trading ranges (eg PHCM MRVC DCLK ISLD), but in general we want to trade 300 to 1000 share lots. Add to and build/subtract from your position, scale in and out to manage risk dynamically.
- We are always monitoring the realtime financial newswires for breaking stories we can profit from. We also monitor the realtime days' gainers/losers to play off the retracements.
- We play picks that are making new highs or lows, we play the extremes.
- We keep extremely tight stops and use L2/time & sales resistance and support to enter & exit positions. Precision micro-trading for fast money.
- "Balls of steel" and "iron discipline" are helpful.
- Decisive, knowledgeable, willing to cut a stock loose in an instant is needed.
- People with attention-deficit disorder are probably at an advantage in daytrading.
- Extreme impatience is a virtue.
- Believe it or not, experienced video game players (like myself) do well at trading, as we are accustomed to rapidly responding to signals we see on computer screens. Think about playing rapid-fire games on your pc.. I even like games like Tetris, builds quick decision-making reflexes.
- If you have to mull over decisions, like what to order off the menu when you're at a restaurant, you probably won't do well as a daytrader. You can learn to be fast and decisive, it takes practice.



Daytraders think:

Do I BUY here this minute?or, Do I SELL here this minute?

Over and over and over, several times each day.

TIPS FOR MAKING THE TRANSITION FROM ONE TRADING STYLE TO ANOTHER:

Here's a few more tips I'd thought might be helpful in guiding you to make a successful transition if you want to try a different trading style:

- It's a good idea to have a brief written-out trade plan to refer to as you try a new trading style. See the worksheets and activities in Modules 1-4 for handouts and fill-in-the-blanks type resources you can use.
- Paper trade your plan at first to work out the details and gain consistency.
- You must decide for yourself which type of trading is best for you; give it a month or so to see how it goes.
- Whatever you do, do Not switch trading styles mid stream, unless you have a significant profit in the position. If you buy off 40 support looking to exit 43ish, don't sell at 40 1/2 just because you have an open profit, instead just put in a loose trailing stop per your trade plan and stick with it.
- Recognize that any transition is stressful and takes patience and discipline on your part. You should make a brief list of your personal trading strengths and weaknesses, based on the information in the two sections above, and work diligently to improve the areas you feel need work. Hang in there, it just takes time. Preserve your capital and be persistent in your efforts.
- Whatever you do, do not let the market take big money from you - fight like hell for every 1/4 point and make sure to not be afraid to take small losses, no matter what your trading style is. Keeping your money in Your pocket is your primary goal, using your trading techniques and plan to minimize losses and take gains from the marketplace. It's a tough, competitive game and you need to be on the right side of "the street" and pros, not with the paper/dumb money.
- I find that the financial news tv is generally worthless to watch and avoid it this year. Instead, I focus my energy on playing stocks whose price movements I become familiar with (like DCLK) and tune out the "noise" that tv shows tend to generate. The tv show information is usually a contrary indicator, you should be suspicious, as it's paid for by the pro money - their goal is to take your money, so avoid listening to it, in my opinion. Listen to the charts, the time & sales, the breakouts and gaps - that's what you need to pay attention to.
- You may find that you did better at your old trading style, that's fine too - the main thing is to keep an open mind and attitude towards your trading from a learning perspective - you should always be trying and testing new trading methods to develop a style that works for you personally most of the time for the short list of stocks that you like to play.

- **How to Make a Living by Swing Trading Stocks: a Professional Traders' Advice**

● Main Points:

- Eventually, you may get to a point where you wish to trade stocks professionally, for a living.
- As with any career change, becoming a trader takes a lot of training & education, practice and commitment. It is not easy.
- This lesson gives you a step-by-step plan for making a transition into trading as a career. It is recommended that you establish your trading skills as a swing trader prior to moving to day trading, particularly if you wish to make a career change. It's like becoming a race car driver by starting with a sports car before jumping into a pro racecar on the circuit.
- Those who are impulsive and unskilled will lose their money to those who have a trade plan that is skillfully and professionally executed. The difference between "playing the market like a gambler for fun" (and mostly losing over time) versus trading professionally requires your hard work and disciplined trading skills, executed without emotions, since it is your business that you use to pay the rent and support your family. Those of us who trade for a living honestly look at it as our livelihood - we cannot afford to trade ignorantly, foolishly, in an uninformed manner. Learning professional technical analysis and trade/risk management skills is critical. Being deadly serious about our trades is what gives us the ability to succeed where others fail.
- In transitioning to trading as a career, you'll want to start by mapping out a timeline for each phase of the change. This should be a 24-month calendar outlining your goals and expectations for each quarters' (3 months) progress.
- No, you can't become a professional trader in 6 months. Any career change, including trading, requires a thoughtful plan with resources, timing and milestones. If you were to change into any other career, how long would you expect it to take? Probably at least a year or two, right? Trading is no different. In fact, it is much more difficult than other career choices.
- Based on conversations with hundreds of traders, I can tell you that most are woefully underprepared to be trading with real money.
For example: Are you still using a 56K internet connection? Do you want to race against my Formula 1 with your hyundai? I hope not (well at least for daytrading....you can swing trade with aol/datek I suppose). How many trading books do you read per month? You should be reading at least 3-4 books per month, just like a college degree program. What's your net P&L average per trade? What's your average stop loss over your last 10 trades? Your average profit? I hope you are keeping track of this. It's your businesses' profit and loss/balance sheet.
- Why do most traders fail? They are not serious businesspeople who expect to make a living at it. They treat it like gambling and guessing. I hope all the things we've covered in these 4 modules gives you some insight into the discipline and hard work it takes to trade. Money is not free - you must earn it, particularly in the markets. I get frustrated at the amatuerish expectations of traders who want to "win money" without work. This is a serious, deep game that takes a lot of skill and time to get good at. Anyone who tells you differently is trying to sell you something. lol.
- Let's take a look at a transition plan I've put together to help give you some specific, actionable ideas for how you might want to approach making a transition into trading for a living. Sure, it can be done. Expect it to take a couple of years. No big deal, if you want to do it, then get serious and Do It.

There are 10 major phases that I'd recommend you consider planning for when making the transition to professional trading. If you were working as a floor broker at one of the major firms they would have a similar process, with the significant added benefit of having on-the-job mentors and training to help you and correct your errors.

These steps should take roughly two years to progress through:

- **Phase One - MARKET BASICS:** Trading Education & Financial Market Awareness
- **Phase Two - METRICS:** Learn all the financial measures related to trading (dozens of metrics)
- **Phase Three - PRICE PATTERNS:** Learning Technical Analysis of Charts
- **Phase Four - TRADING SKILLS:** Order entry types, managing trades, risk management
- **Phase Five - PAPERTRADING:** Using a trading plan to simulate trades, build skills
- **Phase Six - LIVE SWING TRADING:** Limited-risk live swing trades, 1-5 stocks at a time.
- **Phase Seven - INITIAL EVALUATION:** Use of metrics to assess progress in trading to date

- **Phase Eight - START-UP BUSINESS PLAN DEVELOPMENT:** After the education and initial (pilot) trading has been done, it's time to develop a business plan w/capital reqmts & goals
- **Phase Nine - CONSISTENT TRADE IMPLEMENTATION:** Make a defined number of trades each week, using metrics and trading skills developed to date for a six-month period
- **Phase Ten - QUITTING YOUR DAY JOB:** If and when you can consistently trade profitably for at least six months of part-time trading, you can make a choice to leave your 'day job'. Since you will have developed a healthy egg nest (at least 4-6 months' living expenses) from your six months' part time successful trading at this point, you will be ready to trade full time at this point.

Yes, this is the degree of detail and work that's needed to even consider trading for a living. It's not a "I got lucky in a bull market gambling for a couple months let me go trade fulltime now" type of thing. I hope some of you will consider putting the detailed workplan into place that's needed to trade the markets professionally. I never said it would be easy, did I?

For each phase, you need to allocate resources and timing, along with developing specific measurable goals.

DTU's "ROADMAP TO TRADING FOR A LIVING" (c) 2000:

 Market Basics	Understanding how the markets work is useful for your trading. A good example is arbitrage plays, eg when a company buys another company (eg if WMT buys KM), then the acquiring company's stock will decrease due to lower earnings in the following quarter due to acquisition costs etc. Many people do not know the difference between the various market indexes and futures, even though you need to know this stuff. A good overview of the fundamentals is needed to help you understand financial forces at work, and how to profit from them. It's not the most important thing for short-term traders to know, but it should not be overlooked. It's one of the prerequisites to do well in your trading.
Metrics	To be able to trade for a living, you must develop a detailed plan with key measures, or metrics, attached to each step in the process. These measures include your personal trading outcomes, eg profit and loss, stops, average profit per trade etc., as well as market measures that are important, such as 52 week hi/lows, the float for specific stocks, option overhang, volume patterns, fibo numbers and other TA-related metrics, fair value and the impact on opening buying vs selling etc etc. These metrics are core to your understanding of the market, don't trade without knowing key financial metrics & their impact on short-term trades.
Price Patterns	Pattern recognition is probably the single most important skill to learn in short-term trades. By this, I mean both chart patterns, market patterns, time&sales and level 2 patterns and more. You are buying and selling peoples' reactions and beliefs in the market, you're playing people, so you need to know the 'crowd psychology' as reflected in patterns that you see. Learning price and momentum patterns, pullbacks, average trading ranges, time-of-day effects and other market patterns will help you spot high-potential trading opportunities that you should be involved in. Technical analysis is important, I do not use all of the indicators, but knowing several key ones well helps.
Trading Skills	You must remember that your goal is to become a good trader. What is a trader? Someone who buys at one price and sells at a more favorable price, pocketing a profit. Take some time to think about what this means, other than 'buy low sell high'...there's more to it than that. A trader knows bluffs, when to hold and fold, and more. In stock trading, we need to master how to use different order entry types, how to manage trades, handle risks and run our trading like any successful business.
Papertrading	The next step in your development as a professional trader involves practice trading, called paper trading. This is not enough - you don't get the emotions of real trading with paper trades, so instead use time papertrading to mostly learn how you would take small stops. This is the most important skill you need as a trader, in addition to technical analysis and stock pattern recognition. An extension of this is to trade with very small shares (50-100 shares at a time) to get a feel for how to enter and exit trades. Papertrading is a useful activity, to help you figure out how you would trade without risking capital. Its use is limited, though, since it misses much of the excitement and genuine trading reactions you get from real trading.
Live Swing Trading	After papertrading, you'll want to do some live swing trading, again with small shares in relatively inexpensive stocks, from \$15-\$50/share. Avoid cheap stocks, under \$15, and the expensive ones for now. Live swing trading should be done for around three months, with an average of 3-5 trades per week, to get the initial experience you need to begin considering trading for a living. This is all preparatory activity, by the way.

Initial Evaluation

After live trading (and after your initial papertrades too, for that matter), you need to evaluate your trading progress. Did you a) make money or b) lose money? That's the bottom line. Also evaluate your trade skills, such as risk management, percentage of stops and profits taken correctly, and other measures. At this point, if you are not making at least 20% return on investment in 3 months of trading you should go back to the first steps and repeat. Do not progress past this point until you are at least 20% ROI in 3 months. Example: you started with \$20K on July 1st live swing trading, it's now Oct. 1, you should have at least \$24K.



Business Plan

At this point, with some consistent trade skills under your belt, you're ready to start looking at trading like a business. You will now put together a business plan like any business would, except instead of marketing, labor and other costs you have costs such as training and education (books/videos etc), high-speed internet access, higher commissions for direct access brokers (if you're daytrading), equipment such as multiple monitors and a fast PC, perhaps a larger apartment or house so you can dedicate a room to trading, etc. Your business plan must include start-up costs, metrics for profit and loss expectations, and other areas as applicable. Developing a written business plan for your trading will help you treat it like a business. Keep the plan visible in your work area once it's been developed. Especially the measures.

Consistent Trade Implementation

Your goal in becoming a professional trader is to make consistent profits. That's it. Homerun trades and favorable gaps are nice, but professionals make their money by shorting, playing long, and all the other trading skills that are available out there to get favorable prices. Your goal at this point should be to make consistent profits in your swing trades while still maintaining a primary occupation for a six month time period. If you can earn 40% in 6 months on your capital by swing trading (and not just in a bull market either!), then you may be prepared to trade for a living. You alone must make the decision and accept the responsibility involved in such a major life event. If you can trade "pretty well most of the time, and lose only a little when you lose", and you feel that you want to do this 5 days a week for years, then you may be ready to trade. Or, you may stay part-time - the choice is yours.



Quitting Your Day Job

With corporate downsizings and mergers, personnel problems and office politics always a threat, it seems that at least being able to take care of yourself financially if you have to is an important skill to develop. Let's say that you have an "okay" job but you're making more trading stocks, and you have been for the last 6 months, in a choppy market (like the first half of 2000). If you feel ready, then you may be able to resign from your full-time current job to trade for a living.

Any major decision requires careful thought, I'd encourage you to prove to yourself and your family that you can make a consistent living at trading before giving up a steady paycheck. And, you need to ask yourself if you can work by yourself...that is my biggest personal challenge, I am used to being a trainer and consultant and like people. The financial freedom to live where you want and to spend more time with your family is great, though...it is true that "nobody ever got rich working for someone else" and if you remember the amway and tony robbins presentations there's a lot of truth to that. Being financially self-secure is still hard work, but of a different nature. You do get more freedom and resources, but a lot more responsibility. The best parallel is running your own small business - if you've ever been a small business owner you know the hours and dedication that's needed, trading is the same, but probably more difficult.

I have been self-employed for over 5 years in Hawaii and am having the best time of my life. I miss my co-workers in my corporate life at Ford, Rockwell and McDonnell Douglas, (those staff meetings and coffee) but I enjoy the time with my family and the ability to travel and live in Hawaii much more.

I hope you find the results you are looking for in your trading and professional life, and that this page has given you some "food for thought" regarding trading lifestyles and independence.